



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

MINUTES PUBLIC MEETING ARIZONA STATE RETIREMENT SYSTEM BOARD

Friday, May 20, 2011
8:30 a.m., Arizona Time

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. David Byers, Chair of the ASRS Board, called the meeting to order at 8:32 a.m., Arizona Time.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. David Byers, Chair
Mr. Tom Connelly, Vice-chair
Mr. Chris Harris
Professor Dennis Hoffman
Mr. Tom Manos
Mr. Kevin McCarthy
Mr. Michael Townsend
Mr. Larry Trachtenberg (via teleconference)
Mr. Steve Zeman

A quorum was present for the purpose of conducting business.

2. Presentation Regarding the PRIDE Results Award

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, recognized the following nominees for the PRIDE Award for Results:

- Lesli Sorensen
- Sheenam Arora
- John Watson
- Carrie Rifenbark
- Gary Rodriguez
- Contribution Accounting Team: Marcia Kumamoto, Autumn Richey, Jeannie Willetto, Stephanie Nguyen, Mary Kilber, Justo Galindo
- Training Development Team: Aaron Chandler, Jean Langston, Juanita Primero
- Online Enrollment Team: Leticia Dominguez, Sandra Godinez, Tamera Wilson, Michele Briggs, Mark Muraoka, Michael Carr, Wendy Tobin, Maurah Harrison, Manju Kamalraj, Teresa Donohue, Jeff Hickman, Lisa King, Kristi Zeller, Marcia Kumamoto, Bill Thomas, David Greiman, Debasish Banerjee, Kanchan Nainani, Sunitha Surindra, Vig Bhaskaran, Noaman Ahmed
- DOR Offset Program Team: Rochelle Witharana, Julie Wlaker, Tracy Rundle, Carrie Waith, Erica Dunphy, John Mazcko, Lisa King, Mike Hostetler, Lana Menis, Sarah Korish, Jothi Beljan
- ETE Team: Debbie Motta, Lynne Latino, Kristin Berry, Rochelle Witharana, Neal Park, Donna McNally, John Davis

- Custodial Bank Payment Team: *Rochelle Witharana, Lupita Breland, Eric Glass, Debbie Motta*
- Beneficiary Form Backlog Team: *Kristi Zeller, Connie Almaguer, Joy Fuentes, Maria Gall, Vanessa Estrada, Teresa Escoto, Maria Hockaday, Dan Haney, Andrew Watkins, Grace Olmos, Karen Perez, Kim Harding, Nancy Fuller, Valerie Batiste, Leticia Dominguez, Sandra Godinez, Shirley Bazurto, Lydia Gonzales, Paula De Battista, Lynn Day, Carrie Waith*
- LTD Disbursement Team: *Julie Walker, Julie Lockwood, Tracy Rundle, Jeff Volzka, Tamara Wilson, Amy Scalet, Barry O'Dowd, Ted Kistner, Robert Peterson, Ed Rapoport*

They were nominated by their peers because they exemplify the following PRIDE qualities of results: *"I am proactive and responsive; my customers, my team, and my agency can rely on me. I know what I am responsible for and make the effort to ensure I am a subject matter expert. I am accountable for my actions and empowered to make decisions within my area of responsibility."*

Mr. Guarino presented the PRIDE Award for Results to the award winner, the Online Enrollment Team.

3. Approval of the Minutes of the April 15, 2011 Public Meeting and Executive Sessions of the ASRS Board

Mr. Chris Harris arrived at 8:40 a.m.

Motion: Mr. Tom Connelly moved to approve the minutes of the April 15, 2011 Public Meeting and Executive Sessions of the ASRS Board. Mr. Michael Townsend seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding the 2011 Legislative Session

Mr. Pat Klein, Assistant Director, External Affairs, and Ms. Lesli Sorensen, Government Relations Officer, addressed the Board regarding ASRS 2011 Legislative Session. Ms. Sorensen noted the Legislature adjourned sine die on Wednesday, April 20, 2011. Ms. Sorensen presented the *2011 Summary of Retirement Legislation* and gave an overview of the ASRS bill, HB 2024, which passed. The language regarding the time period after which newly hired state employees would be eligible for membership in the ASRS was repealed and changed from six months to 27 weeks.

Ms. Sorensen explained SB 1609 removed the 85 point-based (age + years of service) normal retirement age for members hired on or after July 1, 2011, and replaced it with two new normal retirement ages: Age 60 + 25 years of service and Age 55 + 30 years of service. The two existing normal retirement ages that continue are: Age 65, and Age 62 + 10 years of service.

5. Presentation and Discussion Regarding Trustee Fiduciary Education

Ms. Jothi Beljan, Assistant Attorney General, addressed the Board regarding fiduciary responsibilities with respect to Trustee education and knowledge. Ms. Beljan provided a brief presentation to Trustees regarding fiduciary responsibility as a Trustee and fielded several questions from Trustees.

6. Presentation, Discussion and Appropriate Action Regarding the Long Term Disability Request For Proposal (RFP)

Mr. Pat Klein addressed the Board regarding the LTD Program RFP, which was issued on January 21, 2011, to 241 LTD providers who had properly registered with the State Procurement Office to receive such proposals. One LTD provider submitted a proposal by the due date of February 24, 2011. The offeror that submitted a proposal was deemed to be responsible. The Evaluation Committee, comprised of ASRS staff from the Financial Services Division, the Member Services Division, the Administrative Services Division, the Technology Services Division and the External Affairs Division, met to review and analyze the proposal. The Evaluation Committee concurs with the Procurement Officer's determination that the LTD program contract should be awarded to this responsible offeror.

Motion: Mr. Michael Townsend moved to concur with the Procurement Officer's determination to award the contract for the ASRS LTD program to Sedgewick CMS to be effective July 1, 2011. Mr. Tom Connelly seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding the International Equity Program Review

Mr. Gary Dokes, Chief Investment Officer; Mr. Dave Underwood, Portfolio Manager; and Mr. Allan Martin, Partner, New England Pension Consultants, addressed the Board regarding the International Equity asset class reporting for quarter ending March 31, 2011. Mr. Dokes noted that as of March 31, 2011, the total market value of the ASRS International Equity asset class, excluding Global Tactical Asset Allocation (GTAA), approximately \$4.8 billion, or 17% of the market value of the ASRS Total Fund.

The ASRS International Equity Asset Class historical performance has been mixed; it outperformed its benchmark for one year (+0.5%) and three years (+0.3%) and underperformed for five and ten years, (-1.2% and -0.8%, respectively). On an inception-to-dated basis, this asset class exceeded its benchmark performance by (+0.4%).

8. Presentation, Discussion and Appropriate Action Regarding ASRS Board Elections

Mr. Byers addressed the Board regarding Board elections. Pursuant to the ASRS Board Governance Policy Handbook, the ASRS Board is to elect a Board Chair and Vice-chair for Fiscal Year 2011/2012. The new Chair and Vice-chair positions will become effective July 1, 2011, and will continue through June 30, 2012.

Mr. Steve Zeman recognized the service of Mr. Byers and stressed the importance of continuity on the Board at this time.

Motion: Mr. Steve Zeman nominated Mr. Dave Byers to serve another year as Chair of the ASRS Board of Trustees, effective July 1, 2011 – June 30, 2012.

By a vote of 8 in favor, 0 opposed, 1 abstention, and 0 excused, the motion was approved.

Mr. Dave Byers abstained from voting.

Motion: Mr. Tom Connelly moved to elect Mr. Tom Manos as Vice-chair of the ASRS Board of Trustees, effective July 1, 2011 – June 30, 2012. Mr. Steve Zeman seconded the motion.

By a vote of 8 in favor, 0 opposed, 1 abstention, and 0 excused, the motion was approved.

Mr. Tom Manos abstained from voting.

9. Presentation, Discussion and Appropriate Action Regarding May 2011 ASRS Information Technology System Issues and ASRS Response and Contingency Plan

Mr. Guarino addressed the Board regarding Information Technology system issues that occurred the afternoon of May 17 through May 18, 2011. Investments, the ASRS public website, and phones were all operational. The monthly pension disbursement was not affected and ASRS offices remained open to serve members. Services depending on the PERIS Oracle database were affected, including accessing member accounts, processing applications, service purchase, enrollments, and disbursements of estimate checks.

Mr. Guarino said, because of the potential seriousness, the ASRS began to execute the business continuity plan. Instituting the plan was not necessary because TSD staff worked overnight to fix the issue. Disruptions to disbursements were minor.

Mr. Kent Smith, Assistant Director, Technology Services Division (TSD), explained the ASRS has multiple file servers and a separate data storage device. There was a software bug in the storage device. TSD is considering when the patches provided by FileNet can be applied and a permanent upgrade is being investigated. Mr. Smith said a testing process needs to be followed when applying patches. He said all the data that was corrupted was recoverable; it just took some time to recover it.

10. Presentation, Discussion and Appropriate Action Regarding the Director's Report as well as Current Events

Mr. Guarino presented the report. He had no comments and there was no discussion.

11. Presentation and Discussion with Respect to Informational Updates from the Operations Committee, Investment Committee, and External Affairs Committee

Mr. Michael Townsend, Chair, External Affairs Committee, said there will not be another External Affairs Committee meeting this fiscal year, because the Legislature had adjourned sine die already.

Mr. Tom Connelly, Chair, Investment Committee (IC), said the next IC meeting will take place June 13, 2011. The Rebalancing Policy and restructuring of the Director's asset class committees will be discussed.

Mr. Steve Zeman, Chair, Operations Committee (OC), said the next OC meeting will take place May 26, 2011. The IT Plan and the Security Steering Committee will be discussed.

12. New Agenda Items

No requests were made.

13. Call to the Public

No requests to speak were made.

14. Presentation, Discussion and Appropriate Action with Respect to the ASRS Director Performance Evaluation

Mr. Byers said he had requested a statement and a proposed motion be distributed to all trustees at the beginning of the meeting. He said the Board could go into executive session if anyone felt discussion was necessary.

Mr. Tom Connelly read the following statement:

The ASRS, under the leadership of Director Paul Matson has had multiple year stellar performance. The Board's conclusion is based upon its own review of performance and by documentation developed by external parties such as the PEW organization, the independent actuary, the investment consultant, and ADOA employee surveys. In addition, the Chairman has heard nothing but positive comments from the Governor's staff and legislators who have worked with the Director over the past few years. In summary, the Board recognizes that the Director has played a key leadership role in the following areas:

***Liability Reduction**

Significant and early liability reductions of between \$5 - \$7.6 billion, beginning in 2003. This initiative was implemented many years prior to national or state general recognition of pending fiscal issues and pension sustainability.

***Plan Management**

Working with stakeholders to ensure that the pension plan, health insurance plan, and long term disability plan, were presciently managed. The pension and health insurance plans are ranked nationally as solid performers, with Arizona having the highest state health insurance funded status in the United States.

***Budget Reversions**

An early budget reversion ethos that has enabled the ASRS to revert in excess of \$2.5 million, and growing, of appropriated funding back to the trust fund.

***Internal Investment Portfolios**

Initial development, implementation, and continued performance of internally managed investment portfolios that consistently perform above standard benchmarks, generating many millions of dollars in excess returns for the trust fund.

***Total Fund Performance**

Overseeing the fiscal year-to-date investment rate of return of approximately 27%.

***Cost Effectiveness**

Overseeing the downward migration of the unit costs of providing excellent service.

***Service Levels**

Championing a PRIDE service model that now permeates the agency and has resulted in excellent client service.

It should be noted that the Director would not accept salary increases in multiple prior years due to the fiscal status of the state and because many state employees were not able to receive salary adjustments, and this is to be commended. At the same time, the Board now believes the compensation must be increased to reward performance, to retain this talent and to be more competitive in the event we ever have to replace our Director.

The ASRS Director salary has been lower than the salary for the much smaller Arizona PSPRS pension fund equivalent position for many years; is lower than comparable pensions funds; is very significantly lower than private sector positions, and is significantly lower than what would be required to attract a comparable candidate in the future.

The Board feels that it is critical for the \$27 billion ASRS Trust Fund, for its 500,000 members, and for the employers, to retain the skills and experience of Director Paul Matson.

After significant deliberation by the Board, I move that the following adjustments be made:

1. Effective July 1, 2011: A 7.4 % increase to base salary,

and,

2. Effective July 1, 2011: A one-time additional 10 days of annual leave.

Further, I move that Paul Matson is again appointed as Director of the ASRS with the total support of the Board.

Mr. Steve Zeman seconded the motion.

By a vote of 9 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

15. The next regular ASRS Board meeting is scheduled for Monday, June 27, 2011, at 1:00 p.m., at 3300 N. Central Avenue, 10th Floor Board room, Phoenix, Arizona.

16. Adjournment of the ASRS Board

Mr. Byers adjourned the Board meeting at 10:36 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Lisa Maddox
Board Secretary

Date

Anthony Guarino
Deputy Director and Chief Operations Officer

Date